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## **INTRODUCTION**

The Office of Internal Audit performed an audit of Lake County FIA for the period October 1, 1997 through July 10, 1998. The objectives of our audit were to determine if internal controls in place at the local office provide reasonable assurance that departmental assets are safeguarded, transactions are properly recorded on a timely basis, and policies and procedures of the Michigan Family Independence Agency (FIA) are being followed. Lake County FIA had 25 full time equated positions (FTE's) at the time of our review. Lake County FIA provided assistance to an average 1,721 recipients per month during FY 1997, with total assistance payments of \$2,660,330 during that year.

## **SCOPE**

Our audit was conducted in accordance with Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors. We obtained descriptions of significant systems operating at Lake County FIA, documented those systems, and evaluated controls in each system. We tested the systems for compliance, where feasible. We included the following systems:

Client Processing	CIS
Cash Disbursements	Cash Receipts
General Ledger	Accounts Receivable
Safe & Controlled Documents	IRS Information Security
Food Stamp Mail Issuance	Modified Accrual Balance Sheet
Medical Transportation	Phone Usage

## Food Stamp Issuance

### **EXECUTIVE SUMMARY**

Based on our audit, we conclude that the Lake County FIA internal controls need improvement in order to provide management with reasonable assurance that assets are safeguarded and transactions are executed in accordance with management's authorization. We found several instances of noncompliance with FIA policies and procedures and one weakness in internal controls, which are detailed below.

### **LOCAL OFFICE RESPONSE**

The management of Lake County FIA has reviewed all findings and recommendations included in this report. They indicated that they are in general agreement with the report.

### **FINDINGS AND RECOMMENDATIONS - COMPLIANCE**

The following are areas where we found that the Lake County FIA was not operating in accordance with FIA policies and procedures that are described in manuals or instructional letters.

#### **Mail Opening**

1. Lake County FIA had two people open the mail separately. Two people sorted the mail, but then one clerk opened the mail at her desk. Accounting Manual Item 403 requires that two people work together to open the mail. Having two people opening the mail helps to ensure that cash and negotiable instruments received in the mail are not lost or stolen prior to being recorded at the local office.

WE RECOMMEND that Lake County FIA have two people work together to open the mail.

#### Supporting Documentation for Payments

2. Lake County FIA did not always attach supporting documentation to the FIA-849 on file in the Accounting Office, as required by Accounting Manual Item 404. An invoice or other supporting documentation was not attached for 6 of the 18 payments we reviewed. Attaching invoices to the Accounting Office copy of the FIA-849 helps ensure that all FIA-849 payments are accurate and appropriate.

WE RECOMMEND that Lake County FIA attach the original invoice or other supporting documentation to the Accounting Office copy of the FIA-849.

#### Reconciliation of Cash With County Treasurer

3. Lake County FIA did not reconcile its Asset Account 001 (Cash With County Treasurer) to the County Treasurer's cash account each month, as required by Accounting Manual Item 402. Prompt reconciliation of this account balance helps to detect any discrepancies that need to be corrected. The Lake County FIA fiscal office will be combined with the Mason County FIA fiscal office on July 31, 1998, and the Cash with County Treasurer will be maintained with the Mason County Treasurer.

WE RECOMMEND that Lake County FIA reconcile its Cash With County Treasurer Account to the County Treasurer's records for June and July to ensure its accuracy upon transfer to Mason County.

#### Control of Dial-a-Ride Tokens

4. Lake County FIA did not maintain inventory records for Dial-a-Ride tokens, as required by Accounting Manual Item 403. The tokens should be controlled because they are negotiable.

WE RECOMMEND that Lake County FIA maintain inventory records to control the Dial-a-Ride tokens.

#### Separation of Duties - Food Coupons

5. Lake County FIA did not properly separate duties in the food coupon mail issuance process. Two employees handled the mail issuance process, however they worked independent of one another, and no independent reconciliation of the issuance was performed. Food Stamp Issuance Instructions Manual Item 510 requires that mail issuance be performed by two people, or that a reconciliation of the issuance be performed by an independent employee after all envelopes have been run through the postage machine. Having two people work together in the issuance process helps to prevent errors and inappropriate issuance of food coupons.

WE RECOMMEND that Lake County FIA have two people work together to do the food coupon mail issuance, or have an independent employee perform a reconciliation of the issuance.

#### CIS Security Agreements

6. Lake County FIA did not have CIS Security Agreements (FIA-3974A) on file for 6 of its employees, as required by L-Letter 97-067. Also, Security Agreements on file for 3 employees did not reflect the current status these employees had on CIS. A new Security Agreement should be prepared and signed each time an employee's status changes to

document that the employee is aware of the security requirements for their current access level.

WE RECOMMEND that Lake County FIA have the six employees complete a CIS Security Agreement, and have all employees prepare a new CIS Security Agreement each time their access level on CIS is changed.

NOTE: Lake County FIA had these employees complete their Security Agreements while the auditors were on-site.

#### Medical Transportation

7. Lake County FIA did not properly document Medical Transportation payments. We reviewed 10 cases and found that seven cases were missing the Medical Needs Statement (FIA-54A). Program Administrative Manual (PAM) Item 825 and Accounting Manual Item 416 require that a Medical Needs statement be signed by the client's doctor annually to provide an audit trail for transportation expenses.

WE RECOMMEND that Lake County retain the 54A's in the Medical Transportation casefiles.

#### **RECOMMENDATION FOR IMPROVED INTERNAL CONTROLS**

The following is an area where we have identified a control weakness at Lake County FIA, and we are recommending a change in procedure to reduce the risk associated with the control weakness.

#### CIS Status Codes

8. The fiscal clerk at Lake County FIA had CRS status on the Client Information System (CIS). This status would allow the fiscal clerks to open and make changes to food stamp cases, and then issue food stamps to those same cases. We also found that the employee who did the MA-010 Reconciliation had FLM status. This status would allow this employee to open and make changes to client cases, and authorize payments to those cases with no independent review of the transactions.

WE RECOMMEND that the Lake County change the status of the fiscal clerks and the employee who performs the MA-010 reconciliation so that they may not open or change cases, or authorize payments or food stamps to cases.

NOTE: The Information Technology Technician customized and change the status codes for these individuals while the auditors were on-site.